

Docket Optical System - COMMENTS ON DOCKET NO. 02-IEP-01

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Date: 10/18/02 1:30 PM
Subject: COMMENTS ON DOCKET NO. 02-IEP-01

DOCKET	
02-IEP-1	
DATE	OCT 18 2002
RECD.	OCT 18 2002

We are forwarding comments on Docket No. 02-IEP-01 for the October 22, 2002 hearing. We are concurrently faxing a hard copy of these comments to your office. Please call to confirm receipt. Thanks in advance!

**Comments of the SCAQMD
on the**

**CEC's "Proposed Issues to be Studied"
(Part of the Biennial Integrated Energy Policy Report)**

There are many issues which need to be addressed as part of a statewide integrated energy policy review. Transportation energy use represents 57% of in-state energy consumption. VMT and population growth continue unabated, electricity reliability concerns overhang commercial and industrial markets, and the state's gasoline market is preparing for its largest incremental change in over a decade. All of this at a time when Congressional energy policy remains especially ambiguous. Diverse actions are needed to address these complex and interrelated problems. The CEC's upcoming Biennial Integrated Energy Report is therefore very timely.

As the world's fifth largest economy, California requires pragmatic and aggressive energy policies to ensure public health, energy diversity, infrastructure security, economic productivity and environmental sustainability. The South Coast AQMD appreciates the fact that issues to be considered in the near term need to be sufficiently focused to achieve meaningful attention and programmatic responses. At the same time, it is important to establish a broad, on-going process to address the more intractable, longer-term issues confronting the state.

The energy challenges facing the state are perhaps the most serious ever faced. They entail near-term supply and logistic issues, continuing economic impacts of electricity deregulation, and air pollution health effects which are especially severe for children, the elderly and those in economically disadvantaged and minority communities. The South Coast Air Basin faces a difficult challenge in meeting the 2006 deadline imposed by the federal Clean Air Act for attaining air quality standards for respirable particulate. We have found that 70% of the basin's ambient cancer risk is directly attributable to exposure to diesel exhaust. Despite a decade of improvement in ozone levels, this past summer experienced an increase in the number of days above the federal ozone standard for the first time in 4 years. It is essential, therefore, that care is taken to fashion energy policies which do not exacerbate these air quality problems, but instead reinforce on-going efforts to reduce emissions of HC, CO, NOx and PM.

Our transportation energy impacts are especially acute. In the near term, product pipeline and community storage facilities will face much tighter limitations on product blending to contend

with the unique challenges of ethanol blending. The risk of either ethanol or CARB III gasoline shortages creates a concern that ARB's Phase III standards could be relaxed inadvertently or as an emergency measure. All feasible steps to avoid this occurrence should be enacted on a priority basis, in light of the January 2003 deadline for MTBE phase-out.

Looking at the longer term, refinery capacity is not keeping up with the pace of VMT and population growth. It is troubling that the California transportation fuels market is becoming increasingly reliant on product imports at a time of heightened concerns for homeland security. The state needs to build on its past successes to expedite the creation of viable niche and mainstream markets for alternative fuel technologies.

The District agrees in general that the Biennial Report should focus on the adequacy of supply of electricity, natural gas and petroleum fuels, their implications and the appropriate policy actions for the state. The CEC suggests that the lower bound for energy demand will likely occur under a scenario of slow or delayed recovery, high gas prices and high utilization of Demand Side Management. However, there is a more dire yet possible scenario in which actual supply shortages of either natural gas or electricity generation could occur due to shut-in or unplanned outages of generation assets, T & D limitations, limitations on intra-state supplies, severe weather induced excess gas demand outside California, supply bottlenecks, etc. Such a worse-case scenario, while unlikely, should be assessed to better enhance the state's ability to avoid such a scenario.

The report outline identifies numerous questions to be assessed as part of the study. In general, staff propose to segment the report into 4 issue areas which mix the transportation, natural gas and electricity markets together while concentrating on broad themes such as "Infrastructure", "Reliability", etc. As a result, issues common to the transportation market, for example, are intermingled throughout the proposed outline. It is unclear why it is preferable to segregate a discussion of "Adequacy" from "Volatility". The report would be more coherent if it were organized by market segment (i.e., transportation; electricity and natural gas). For overlapping issues, such as market structure, enforcement, inter-fuel benchmarking, etc, a separate section dealing with these cross-cutting issues could be used.

We have the following specific comments on each area as proposed by the CEC staff:

Issue 1: Infrastructure and Constraint Implications

The second of these questions seems overly broad. The entire Biennial Report is essentially addressing how State and federal policies will affect California's supply, demand and availability of energy in all its forms.

Regarding methods to affect transportation energy demand, we would urge the staff to not focus on VMT reduction and pricing strategies which have little or no prospect of implementation in the near term. The focus here should be primarily on technology strategies such as lower CO2 emission technologies, including plug in hybrids. Most of this assessment should rely heavily on input from the ARB, as ARB was recently mandated by state law to examine this issue.

Issue 2: Adequacy, Reliability and Risk

The role of natural gas, particularly LNG, should be assessed to estimate the contribution that incremental supplies of NG could have on LNG transportation markets as well as supply and price stabilization benefits resulting from alternative sources of NG. The statewide potential for fleet rules such as the 1190 series Rules adopted by the District should be considered as a means of improving air quality while helping to diversify the state's transportation energy mix and reduce greenhouse gas emissions. Major heavy-duty engine manufacturers have made significant efforts to develop natural gas vehicles which, for over a decade, have been certified to the lower NOx emissions levels than comparable diesel engines. Fleet rules are a cost-effective emission reduction strategy and should be incorporated in a prominent manner in the report's findings.

The lack of a widespread refueling infrastructure is a significant barrier to expanded AFV commercialization. The need for expanded fuel availability should, therefore, be addressed in the report. Light- and heavy-duty AFV's are available now on a retail basis, and a visible, well-finance state investment in added refueling stations would increase consumer demand, trigger increased vehicle production volumes, and help improve the economics of vehicle purchase and operation. The potential for home refueling should also be considered, in light of recent commercial development of such devices.

The role of clean Distributed Generation, less than 0.5 pounds per Mwh, should be considered as a means of reducing the utilization of backup diesel generators, improving electricity transmission and distribution efficiency, and enhancing overall system reliability and system power quality. Fuel cells and microturbines, especially when linked to combined heat and power applications, offer a major opportunity to increase overall system efficiencies while eliminating or significantly reducing emissions. Incentives for the use of such technologies should be developed and promoted on a statewide basis.

The resource investment plan developed by the California Power Authority should be a key reference point for this analysis. A list of the maximum-achievable energy efficiency opportunities, including enhanced appliance standards, and higher utilization of CHP, cool roofs, peak load pricing signals, etc., should be included in the discussion. We would also suggest that a target be established for a State Solar Initiative for PV and utility-scale solar thermal technologies. Incentives and recommended rates for clean Distributed Generation (DG) technologies should be assessed.

The last question in this section, regarding how much the state should reduce petroleum dependency, is significant and should be the focus of an entire chapter of the report.

Issue 3: Prices, Volatility and Consumer Response

A key question relevant to this section is what incentives would be effective to secure a sustainable major market launch for clean distributed energy technologies such as fuel cells and microturbines. A key aspect here is the need for the CEC to expedite its standard setting for utility interconnections and net metering. A state-of-the-art review of appliance standards would also be constructive in this section. The benefits of increased market competition from alternative fuels and feedstocks (i.e. renewables) should also be recognized in the report.

Simplification and strengthening of regulatory oversight to enhance consumer protections should be considered in this section as well. Segmented regulatory action of the PUC has been helpful over the past 18 months in restructuring utilities' long-term debt, along with the State's recent unprecedented energy bond finance offering. Such steps at crisis intervention, however, are no substitute for more deliberate assessments of the remaining structural deficiencies of the partially regulated electricity market. A special workshop on electricity market structure would help identify the key ingredients needed to ensure adequate future energy supplies consistent with our need for secure, renewable and diverse supplies.

In the transportation segment, a formal process for MTBE Phase-out implementation tracking and review should be identified. The phase-out of MTBE has the potential to equal or exceed the negative economic consequences of utility deregulation if inadequate attention is given to the risks of unintended consequences.

Issue 4 State and Global Environment

It is important that the report recognize the public health effects associated with energy use, including toxic air contaminants such as diesel exhaust. Life-cycle uncertainties should be identified along with future analysis which is needed of this issue. In the stationary source area, there is a unique opportunity for a "Lessons Learned" process which would identify the key implications of the problems experienced in California's electricity market during the summer of 2001.

The South Coast AQMD was forced to curtail part of its regulatory program – our NO_x ERC trading program – to ensure that local generation assets were kept on line. "Shortages" of ERC's may have resulted in part from some degree of market manipulation and / or disingenuous business practices. A resolution of these questions lies at the regulatory intersection of the gas supply and pipeline rules of the FERC, the investor utility requirements of the PUC, the permitting requirements of the CEC, the contractual requirements of the DWR, the emission regulations of the ARB and the local districts, and the facility arrangements made by the California Power Authority. We believe that there is a clear need for these regulatory agencies to convene a joint workshop to ensure the effective implementation and enforcement of applicable regulatory requirements. Such a joint "Regulatory Enforcement" workshop would help to identify the key steps needed to avoid a recurrence of many of the problems encountered during the summer of 2001.

In the transportation segment, long term market penetration targets should be established for NGV's, fuel cell vehicles, hybrids and other ZEV and near-ZEV vehicles to help reduce the state's petroleum dependency and assist in meeting air quality goals. Targets for an alternative fuel infrastructure should also be established.

Integrated Policy Concerns:

A fifth area of concentration would also be desirable. Due to the growing interconnectedness of the state's energy markets, policy innovation in the following areas would also be constructive:

- Routine California Energy Infrastructure Security Review

- ❑ Sustainable energy policy development
- ❑ LNG policy framework
- ❑ GHG initiatives framework (*coordinated with ARB's programs*)
- ❑ Regional and local energy planning grants(*e.g., SCAG's Energy Resources Report*)
- ❑ Development of benchmarks to judge energy market manipulation and/or excessive concentration

The District appreciates the opportunity to provide these comments on this important policy undertaking. We look forward to working cooperatively with the CEC as this process moves forward.